



UNITED STATES DEPARTMENT OF STATE  
AND THE BROADCASTING BOARD OF GOVERNORS  
*OFFICE OF INSPECTOR GENERAL*

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Office of Audits

September 2014

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# Audit of Radio Free Europe/Radio Liberty After-employment Benefits

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**United States Department of State  
and the Broadcasting Board of Governors**

***Office of Inspector General***

**PREFACE**

This report was prepared by the Office of Inspector General (OIG) pursuant to the Inspector General Act of 1978, as amended, and Section 209 of the Foreign Service Act of 1980, as amended. It is one of a series of audit, inspection, investigative, and special reports prepared by OIG periodically as part of its responsibility to promote effective management, accountability, and positive change in the Department of State and the Broadcasting Board of Governors.

This report addresses compliance with Federal and Department regulations for contracting officers and specific requirements for contracting officers not to exceed their delegated procurement authorities. The report is based on interviews with employees and officials of relevant agencies and institutions, direct observation, and a review of applicable documents.

OIG contracted with the independent public accountant Kearney & Company, P.C., to perform this audit. The contract required that Kearney & Company perform its audit in accordance with guidance contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Kearney & Company's report is included.

Kearney & Company concluded that the costs related to Radio Free Europe/Radio Liberty's after-employment benefits provided to its U.S. and overseas employees were generally in accordance with Federal grant regulations and its grant agreement with BBG. Although Kearney & Company concluded that the plans were in accordance with requirements, BBG did not have sufficient oversight of the grantee's after-employment plans.

OIG evaluated the nature, extent, and timing of Kearney & Company's work; monitored progress throughout the audit; reviewed Kearney & Company's supporting documentation; evaluated key judgments; and performed other procedures as appropriate. Kearney & Company's findings, and the recommendations contained in the report were developed on the basis of the best knowledge available and were discussed in draft form with those individuals responsible for implementation. OIG's analysis of management's response to the recommendations has been incorporated into the report. OIG trusts that this report will result in more effective, efficient, and/or economical operations.

I express my appreciation to all of the individuals who contributed to the preparation of this report.

A handwritten signature in blue ink, appearing to read "Norman P. Brown".

Norman P. Brown  
Assistant Inspector General  
for Audits

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## Audit of Radio Free Europe/Radio Liberty After-Employment Benefits

Office of Inspector General  
U.S. Department of State  
Washington, D.C.

Kearney & Company, P.C. (referred to as “we” in this letter), has performed an audit of Radio Free Europe/Radio Liberty after-employment benefits. This performance audit, performed under Contract No. SAQMMA09D0002, was designed to meet the objective identified in the report section titled “Objective” and further defined in Appendix A, “Scope and Methodology,” of the report.

We conducted this performance audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. We communicated the results of our performance audit and the related findings and recommendations to the Office of Inspector General.

We appreciate the cooperation provided by personnel at the Broadcasting Board of Governors and Radio Free Europe/Radio Liberty during the audit.



Kearney & Company, P.C.  
Alexandria, Virginia  
September 15, 2014

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**Acronyms**

BBG	Broadcasting Board of Governors
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
RFE/RL	Radio Free Europe/Radio Liberty
TCN	Third Country National

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## **Executive Summary**

After-employment benefits may have significant long-term financial implications for organizations. Radio Free Europe/Radio Liberty (RFE/RL), a grantee funded by the Broadcasting Board of Governors (BBG), offers several types of after-employment benefits to its U.S. and overseas employees. The after-employment benefits offered by RFE/RL to its employees do not have a direct impact on the Federal Government's financial position. However, the RFE/RL benefits are part of the Government's costs in using a grantee to accomplish goals and so must be considered when developing a grant agreement.

The objective of this audit was to determine to what extent costs related to RFE/RL's after-employment benefits were allowable according to Federal grant regulations and the grant agreement. An external audit firm, Kearney & Company, P.C. (Kearney), acting on behalf of the Office of Inspector General (OIG), performed this audit.

Kearney concluded that the costs related to RFE/RL's after-employment benefits provided to its U.S. and overseas employees were generally in accordance with Federal grant regulations and its grant agreement with BBG. Kearney also found that the severance plans for both U.S. and overseas employees were allowable. Although Kearney concluded that the plans were in accordance with requirements, Kearney found that RFE/RL had an unfunded liability of approximately \$88 million, as of September 30, 2013, related to after-employment benefits. BBG did not have sufficient oversight of RFE/RL's after-employment plans. Specifically, BBG did not sufficiently monitor RFE/RL, adequately define roles and responsibilities related to grant oversight, and maintain adequate internal communications related to the grantee. Further, the format of financial reports required from RFE/RL did not include information on unfunded liabilities, and BBG had not performed benefit comparability studies in a complete or timely manner.

Because it was not effectively monitoring the financial condition of RFE/RL, BBG was not appropriately managing risks. The RFE/RL unfunded liability does not represent a legal liability to the Federal Government, and Federal Government officials have indicated that the Government will not provide additional funding to cover any shortfalls. However, the Federal Government may elect to provide additional funding to avoid the unfavorable outcome of discontinuing benefits.

OIG made 10 recommendations intended to improve BBG's oversight of RFE/RL's financial operations. In July 2014, OIG provided a draft of this report to BBG and RFE/RL. In its August 19, 2014, response (see Appendix C) to the draft report, BBG concurred with Recommendations 1, 2, and 4–10 and partially concurred with Recommendation 3. Although no recommendations were addressed to it, RFE/RL provided comments to the draft report, which are presented in Appendix D. Based on the comments received, OIG considers Recommendations 1, 2, and 4–10 resolved, pending further action, and Recommendation 3 unresolved. BBG's responses to the recommendations and OIG's replies to the responses are presented after each recommendation.

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### **Background**

An after-employment benefit is a form of compensation provided to former employees as part of an overall pay and benefits package. After-employment benefits may have significant long-term financial implications for organizations that require consideration. The types of after-employment benefits offered can vary significantly depending on the organization's goals and the environment in which it operates. Some common types of after-employment benefits include the following:

- **Defined Benefit Retirement Plans** – A plan in which an employer commits to pay its employees a specific amount for life beginning at retirement, usually through periodic annuities. For example, the annuity component of the Federal Employees Retirement System offered by the Federal Government is a defined benefit plan.
- **Defined Contribution Retirement Plans** – A plan in which an employee receives an amount based on the total sum of employee and employer contributions during the period of employment. The Thrift Savings Plan offered by the Federal Government and 401(k) plans are examples of defined contribution plans.
- **Severance Plans** – Compensation paid to an employee when the employee leaves employment. Involuntary severance is paid to an employee because of layoffs or job elimination. Voluntary severance is paid to an employee who chooses to leave an organization, and voluntary severance is required under labor laws in some overseas countries.
- **Post-Retirement Medical Plans** – An arrangement under which an employer covers all or part of the cost of providing health insurance to a prior employee.
- **Post-Retirement Life Insurance Plans** – A type of insurance that provides for payment of an amount to a beneficiary when a plan participant dies.

The Federal Government offers several types of after-employment benefits to its employees and reports significant liabilities related to these plans. For example, as of September 30, 2013, the Federal Government reported more than \$3.4 billion in liabilities related to pension plans and \$1.1 billion in liabilities related to post-retirement health plans.<sup>1</sup>

Organizations to which Federal agencies provide grants<sup>2</sup> may offer their employees after-employment benefits. The after-employment benefits offered by grantees to employees do not have a direct impact on the Federal Government's financial position. However, the benefits provided by the grantees are part of the Government's costs in using grantees to accomplish goals and so must be considered by the Government when it is reaching agreements with grant organizations. Office of Management and Budget (OMB) guidance (the Code of Federal

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<sup>1</sup> 2013 Financial Report of the United States Government.

<sup>2</sup> A grant is an award of financial assistance, the principal purpose of which is to transfer a thing of value from a Federal agency to a recipient to carry out a public purpose of support or stimulation. A grant is different than a contract in that a contract is used to acquire property or services for the Federal Government's direct benefit or use.

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Regulations [CFR])<sup>3</sup> states that “the Federal awarding agency must manage and administer the federal award in a manner so as to ensure that Federal funding is expended and associated programs are implemented in full accordance with U.S. statutory and public policy requirements.” To comply with this guidance, a Federal agency that provides grants must be aware of the impact its grantee’s policies, specifically, its benefit plan offerings, could have on the grantee’s operations and its ability to operate within the confines of its current funding.

### **Broadcasting Board of Governors**

BBG is an independent Federal agency that oversees all U.S. Government-supported, civilian international broadcasting. Its mission is to inform, engage, and connect people around the world in support of freedom and democracy via radio, television, and the Internet. The Board of Governors that oversees BBG is a nine-member bipartisan body consisting of eight private citizens appointed by the President and the Secretary of State (ex officio). The Board sets the priorities and the overall strategic direction of U.S. international broadcasting. BBG provides more than one-third of its budget to three grantees that develop news content and provide other key services.

BBG has the responsibility to monitor and oversee its grantees. At a minimum, BBG should maintain documentation of its review and monitoring of each grantee to ensure compliance with the terms and conditions of the grant agreement and Federal regulations. According to BBG’s Grantee Handbook, information and activities that support grantee monitoring include “reports, as well as interaction with the grantee through meetings, site visits, telephone calls, written correspondence or audits.”

### **Radio Free Europe/Radio Liberty**

BBG establishes an annual grant with RFE/RL to provide news and information programming. RFE/RL broadcasts more than 1,000 hours of programming each week to more than 23 million people using 28 different languages in 21 countries, including Iran, Iraq, Afghanistan, Pakistan, and Russia. Under Internal Revenue Service rules,<sup>4</sup> RFE/RL is a private, nonprofit Section 501(c)(3) corporation. U.S. public law<sup>5</sup> states, “the Board of Directors of RFE/RL, Incorporated, shall consist of the members of the Broadcasting Board of Governors . . . and of no other members.” By law, BBG’s Board of Governors is required to also be the Board of Directors for RFE/RL. This “mirror” board between the two entities is intended to act as a control to ensure monitoring and oversight of granted funds.

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<sup>3</sup> 2 CFR § 200.300, “Statutory and national policy requirements.”

<sup>4</sup> Section 501(c)(3) of the Internal Revenue Code establishes the criteria for qualifying as a tax-exempt organization. To be exempt from taxation on earnings, an organization cannot be organized to operate for the benefit of any private interests, and no part of the organization’s net earnings can be for the benefit of a private shareholder. RFE/RL operates to carry out the Federal Government’s international broadcasting mission and has no private shareholders as beneficiaries to its funds.

<sup>5</sup> U.S. International Broadcasting Act of 1994 (Pub. L. No. 103-236, § 308).



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RFE/RL was created in 1949 and went on the air for the first time on July 4, 1950, with a broadcast to Czechoslovakia.<sup>6</sup> From 1951 to 1995, RFE/RL was headquartered in Munich, Germany. In 1994, the U.S. Government decided to reorganize and relocate RFE/RL, and Congress approved a relocation of the RFE/RL headquarters to Prague, Czech Republic, where it is still located. RFE/RL also maintains a corporate office in Washington, DC. In addition, RFE/RL has 19 service bureaus that operate in other overseas locations.

In FY 2013, BBG provided \$92 million in appropriated funds to finance RFE/RL operations. According to the grant agreement, RFE/RL “may use the Grant Funds solely for planning and operating expenses related to international broadcasting and administration thereof,” and BBG is required to “conduct an annual review to measure Grantee’s performance in achieving the purposes of this Agreement and compliance with its terms.”

**RFE/RL Staffing Levels and After-employment Plans**

RFE/RL provides after-employment benefits to its employees. During FY 2013, RFE/RL had 945 employees or staff eligible for after-employment benefits. Approximately 18 percent were U.S. employees, 13 percent were Third Country National (TCN) employees, and 69 percent were overseas employees or staff.<sup>7</sup> A breakdown by demographic categories is provided in Table 1.

**Table 1. RFE/RL Current Employees and Staff by Demographic Category**

<b>Demographic</b>	<b>Employee Count</b>	<b>Definition</b>
U.S. Employees	174	U.S. citizens or U.S. Green-card holders who work under U.S. employment agreements.
TCNs	120	People who work in a country other than the one in which they hold citizenship. TCNs work under U.S. employment agreements.
Overseas Employees at Headquarters	215	Czech citizens working in Prague. These employees work under local employment agreements.
Overseas Staff at bureaus	436	Locally employed staff working in one of RFE/RL’s 19 bureaus. Overseas staff work under local employment agreements.
<b>Total Employees and Staff</b>	<b>945</b>	

Source: RFE/RL Human Resource Director.

RFE/RL offers several after-employment pension plans to compensate its employees and retirees depending on the demographic of the employee, and it also provides certain

<sup>6</sup> Czechoslovakia was dissolved peacefully on January 1, 1993, into the Czech Republic and the Slovak Republic.

<sup>7</sup> In addition to having full-time employees, RFE/RL contracts with approximately 700 freelance journalists as needed. Freelance journalists are not considered RFE/RL employees and are not eligible for after-employment benefits.

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post-retirement health care and life insurance benefits for U.S. and TCN employees, as shown in Table 2.

**Table 2. RFE/RL After-employment Plans and Eligibility**

Plan Name	Number of People Eligible for or Participating in Plan
U.S. Defined Contribution Plan	294 participating employees
U.S. Post-Retirement Health and Life Plan	656 participating employees and retirees
U.S. Severance Plan	294 eligible employees
Czech Defined Contribution Plan	215 participating employees
Czech Severance Plan	215 eligible employees
German Defined Benefit Plan (Closed)	754 participating retirees
Overseas Bureau Severance Plans	436 eligible staff

Source: RFE/RL Human Resource Director.

**Accounting for RFE/RL After-employment Benefits**

To better reflect the financial impact of after-employment benefits, accounting standards require organizations to report a liability on their financial statements. Specifically, an organization is required to “recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status.”<sup>8</sup> For FY 2013, RFE/RL reported more than \$284 million in liabilities for two of its after-employment plans. These liabilities were partially offset by assets held in reserve to cover the future after-employment benefits, leaving an unfunded liability for FY 2013 of \$88 million. RFE/RL's FY 2013 liability, assets, and unfunded liability for after-employment benefits are shown in Table 3.

**Table 3. FY 2013 Unfunded Liability Related to After-employment Benefits (in thousands)**

Plan Name	Plan Liability	Offsetting Assets	Unfunded Liability
German Pension Plan	\$162,760	\$161,325	\$1,435
Post-retirement Health and Life Insurance	122,088	35,187	86,901
<b>Total</b>	<b>\$284,848</b>	<b>\$196,512</b>	<b>\$88,336</b>

Source: RFE/RL Financial Statements and FY 2013 Actuarial Report.

**Objective**

The objective of this audit was to determine to what extent costs related to RFE/RL's after-employment benefits were allowable according to Federal grant regulations and the grant agreement.

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<sup>8</sup> Financial Accounting Standards Board, Accounting Standards, Codification 715, “Compensation–Retirement Benefits,” and Codification 958, “Not-for-Profit Entities.”

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### **Audit Results**

#### **Radio Free Europe/Radio Liberty After-employment Benefits Were Generally Allowable but Were Not Fully Funded**

Kearney concluded that the costs related to RFE/RL's after-employment benefits provided to its U.S. and overseas employees were generally in accordance with Federal grant regulations and its grant agreement with BBG. Specifically, the aggregation of the retirement benefits provided to U.S. employees was less generous than the benefits provided to Federal Government employees, and retirement benefits provided to employees overseas were either approved by Congress or conformed with local labor laws and prevailing practice. Kearney also found that the severance plans for both U.S. and overseas employees were allowable. Although Kearney concluded that the plans were in accordance with requirements, Kearney found that RFE/RL had an unfunded actuarial liability of approximately \$88 million as of September 30, 2013, related to after-employment benefits. The \$88 million unfunded actuarial liability is projected based upon actuarial assumptions to estimate future spending related to after-employment benefits and fluctuates annually. Kearney also found that BBG did not have sufficient oversight of RFE/RL's after-employment plans. Specifically, BBG did not sufficiently monitor RFE/RL. Kearney further found that BBG did not adequately define roles and responsibilities related to grant oversight and did not have adequate internal communications related to this grantee. In addition, the format of financial reports required from RFE/RL did not include information on unfunded liabilities, and BBG had not performed benefit comparability studies in a complete or timely manner.

Because it was not effectively monitoring the financial condition of RFE/RL, BBG was not appropriately managing risks. The RFE/RL unfunded liability does not represent a legal liability to the Federal Government, and Federal Government officials have indicated that the Government will not provide additional funding to cover any shortfalls. However, the Federal Government may elect to provide additional funding to avoid the unfavorable outcome of discontinuing benefits.

#### **After-employment Benefits Provided to U.S. Employees Were Allowable**

BBG's grant agreement<sup>9</sup> with RFE/RL stated, "No grant funds may be used . . . to pay any salary or other compensation,<sup>10</sup> or enter into any contract providing for the payment of salary or compensation in excess of the rates established for comparable positions under Title 5 of the United States Code."<sup>11</sup> Title 5 of the United States Code provides details on after-employment benefits offered to Federal employees (see Appendix B for details on the provisions in Title 5 that were considered during the audit). In effect, RFE/RL is limited to offering after-employment

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<sup>9</sup> A grant agreement is the legal contract which governs the funding relationship between an agency and a grantee. As such, the grant agreement is the means by which BBG establishes guidelines, criteria, and constraints for RFE/RL.

<sup>10</sup> After-employment benefits are considered a form of compensation.

<sup>11</sup> Grant agreement between BBG and RFE/RL, art. VII, sec. (f)(1), Jan. 2012.

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benefits to U.S. employees at a rate that is less than or equal to the benefits that are offered to Federal employees.

Kearney compared the benefits provided by RFE/RL to U.S. employees at retirement, as well as severance benefits, with benefits provided by the Federal Government<sup>12</sup> and concluded that the benefits provided by RFE/RL, in the aggregate, did not exceed the benefits provided under Title 5 of the United States Code. Therefore, the after-employment benefits provided by RFE/RL to U.S. employees were allowable.

### **Retirement Benefits for U.S. Employees**

RFE/RL officials stated that the after-employment benefits provided to U.S. employees were developed as a package rather than as separate benefits. Although Kearney noted specific RFE/RL benefits that were more favorable than Federal equivalents, when aggregated as a total benefit package, Kearney concluded that the retirement benefits provided to RFE/RL's U.S. employees were less favorable than the Federal benefits provided.

RFE/RL offered two types of retirement benefits to U.S. employees: a defined contribution plan and a health and life insurance plan. Beginning in July 1995,<sup>13</sup> RFE/RL offered U.S. employees<sup>14</sup> a defined contribution plan. Kearney compared the details of this defined contribution plan with the benefits provided to U.S. Government employees as part of the Thrift Savings Plan, which is also a defined contribution plan. Kearney found that RFE/RL offered up to 9.5 percent in matching funds while the Government offered only up to 5 percent in matching funds for its employees. Although the amount of available matching funds was more generous for RFE/RL, Federal Government employees under the Federal Employees Retirement System also received a defined benefit plan that pays 1 percent of salary per year of service as an annuity. RFE/RL's plan did not include a defined benefit component. Kearney's actuarial specialist estimated that the combined service cost to the Government for the defined contribution plan and the defined benefits plan was approximately 20.6 percent of total employees' salaries. This benefit service cost exceeded the 9.5 percent of service cost provided to RFE/RL employees.

RFE/RL's post-retirement health and life insurance plans had been offered since July 1995.<sup>15</sup> RFE/RL offered two distinct plans based on where the retired employee lived—within the United States or overseas. The plans were considered to be a secondary insurance to Medicare for employees in the United States and primary insurance for those employees living

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<sup>12</sup> For the Federal Government benefits, Kearney used benefits provided under the Federal Employees Retirement System. Kearney did not consider benefits provided by the Civil Service Retirement System, as this plan was closed to new entrants in 1987.

<sup>13</sup> Prior to July 1995, RFE/RL offered its U.S. employees a defined benefit plan. RFE/RL closed this plan by entering into a contract with a third party that resulted in no liability for RFE/RL. RFE/RL replaced the defined benefit plan with the defined contribution plan.

<sup>14</sup> The same plan is offered to RFE/RL's TCN employees.

<sup>15</sup> RFE/RL uses third-party insurance providers to administer the health and life insurance benefits.

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overseas.<sup>16</sup> Kearney compared the post-retirement health and life insurance plans offered by RFE/RL with similar plans offered to Federal retirees as part of the Federal Employees Health Benefits plan<sup>17</sup> and the Federal Employees Group Life Insurance plan.

As of FY 2013, RFE/RL paid between 85 and 91 percent of the health plan premiums, and the retiree paid between 9 and 15 percent.<sup>18</sup> Comparatively, the Federal Government paid about 75 percent of the premiums, and employees paid the remaining 25 percent. Kearney also found that Federal employees were required to pay higher copayments for the same or similar services as those offered under the RFE/RL plan (\$20 compared with \$10), and Federal employees had larger out-of-pocket expenses. Based on the factors analyzed, Kearney concluded that the RFE/RL health plans were more generous than the Federal equivalent.

RFE/RL's life insurance plan provided that a participant's beneficiary will receive a flat \$10,000 benefit payment.<sup>19</sup> Kearney compared the RFE/RL benefits with those of the Federal Employees' Group Life Insurance Standard Option for Federal retirees.<sup>20</sup> Under this plan, a Federal participant's beneficiary will receive an amount equal to the participant's annual salary plus \$2,000 (rounded to the nearest \$1,000). The benefit is reduced 2 percent monthly beginning at retirement until a minimum benefit of 25 percent is reached. Kearney analyzed the plans and concluded that the benefits offered by RFE/RL were less generous than the Federal plan.

Because in the aggregate the benefits provided by RFE/RL to its U.S. employees did not exceed the benefits provided under Title 5 of the United States Code, Kearney concluded that the benefits were allowable.

### **Severance Pay for U.S. Employees**

RFE/RL offered severance pay to U.S. employees who were separated involuntarily as a result of a reduction in force or job elimination. The U.S. Government also offered severance pay to its employees for involuntary separations. Kearney compared the details of the RFE/RL severance plan with the benefits provided to U.S. Government employees and found the two plans to be the same. Both severance plans provide an amount equal to 1 week of pay for the first 10 years of service, 2 weeks of pay for the next 10 years of service, and 25 percent of 1 week of pay for each 3 months beyond the final full year of service. The maximum benefit payment is 52 weeks of pay.

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<sup>16</sup> RFE/RL officials indicated that these plans are secondary insurance for certain retirees living overseas who are covered by other health and life insurance plans, such as their country's social insurance or other equivalent.

<sup>17</sup> For the Federal Government comparative plan, Kearney used the Blue Cross, Blue Shield Standard Option benefit schedule, which is the most common plan used by Federal retirees.

<sup>18</sup> Until 2010, RFE/RL was paying 100 percent of the premiums for retirees (not including dependents).

<sup>19</sup> Until 2011, RFE/RL's life insurance plan provided that the participant's beneficiary would receive an amount equal to the participant's annual salary reduced by 10 percent each year beginning at retirement until a minimum benefit of \$10,000 was reached. According to RFE/RL officials, only a limited number of retirees remain under this benefit calculation.

<sup>20</sup> This plan is the most common plan selected by Federal retirees.

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**After-Employment Benefits Provided to Overseas Employees and Staff Were Allowable**

After-employment benefit plans offered to overseas employees or staff are governed by standards and guidance for grantees established by OMB,<sup>21</sup> which is cited in the grant agreement. The guidance is based on prevailing practice and specifically states that compensation for overseas employees or staff “will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the non-Federal entity competes for the kind of employees involved.”

RFE/RL operates its Headquarters in the Czech Republic and also has 19 bureau offices overseas that identify and report news stories.<sup>22</sup> RFE/RL engaged a law firm familiar with employment law and practices for each of the countries in which RFE/RL operates to prepare Employment Agreements that comply with local legal requirements and prevailing practice. The Employment Agreement between RFE/RL and the staff governed the benefits paid to the local staff. Kearney obtained sample Employment Agreements from each country where RFE/RL operates and summarized the after-employment benefits offered, as detailed in Table 4.

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<sup>21</sup> Title 2, Code of Federal Regulations, Chapters I and II, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

<sup>22</sup> RFE/RL’s Headquarters were formerly in Germany, but that office has been closed since 1995.

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**Table 4. After-Employment Benefits Provided by Country**

Country	After-employment Benefits
Czech Republic	Defined Contributions Plan and Involuntary Severance
Germany	Defined Benefits Plan (closed)
Kazakhstan	None
Iraq	None
Azerbaijan	Involuntary Severance
Serbia	Involuntary Severance
Kyrgyz Republic	Involuntary Severance
Moldova	Involuntary Severance
Tajikistan	Involuntary Severance
Pakistan	None
Afghanistan	None
Ukraine	Involuntary Severance
Russia	Involuntary Severance
Montenegro	Involuntary Severance
Kosovo	None
Bosnia and Herzegovina	Involuntary Severance
Macedonia	Involuntary Severance
Georgia	Involuntary Severance
Iran	U.S. Plan or Czech Plan*
Armenia	Involuntary Severance
Belarus	None

\*Bureau staff are based in the Czech Republic. Thirty-eight of 49 staff are U.S. employees or TCNs and are under U.S. labor law. The remaining 11 employees are Czech citizens and are under Czech labor law.

Source: Sample employment agreements provided by RFE/RL.

Kearney compared the benefits provided by RFE/RL in its two overseas retirement plans and its severance benefits with benefits provided under prevailing practice for countries overseas and concluded that each of the after-employment benefits was generally consistent with those of prevailing practice in the countries in which RFE/RL operates. Therefore, the after-employment benefits provided by RFE/RL to overseas employees or staff were allowable.

#### **Defined Contribution Plan for Czech Citizens**

RFE/RL offers supplemental pension insurance to its Czech employees in the form of a defined contribution plan. Czech supplemental pension insurance is a voluntary part of the Czech social insurance system. All Czech citizens who register for supplemental pension insurance and open an account with a state-approved provider are eligible to participate. RFE/RL contributed between 3 and 5 percent of the employee's salary for its Czech employees depending on the employee's status. Kearney compared the RFE/RL plan with the plan offered by the U.S.

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Department of State (Department) to its overseas employees in the Czech Republic.<sup>23</sup> Kearney found that the Department had provided a 3 percent contribution for its supplemental Czech plan. However, the Czech Republic had recently undergone a pension reform that increased the contribution levels allowed. Therefore, based on its research, Kearney concluded that the benefit offered by RFE/RL was reasonable based on prevailing practice in the Czech Republic.

### **Defined Benefit Plan for German and Non-U.S. Citizens**

While headquartered in Munich, Germany, RFE/RL offered a defined benefit plan to its German and other non-U.S. employees. This plan was established in 1976 and was approved by the Congress. On June 30, 1995, as part of the move to Prague, Czech Republic, RFE/RL closed the German defined benefit plan to new entrants.<sup>24</sup> When it closed the plan, RFE/RL fully funded the existing liability by purchasing insurance annuity contract assets using funds from the sale of its assets in Germany. Because this plan, including the benefit details, was specifically approved by the Congress, Kearney considered it to be allowable.

### **Overseas Severance Plans**

In accordance with local labor law and prevailing practice in the countries in which it operates, RFE/RL offered severance plans for involuntary terminations covering the Czech Republic headquarters and 12 additional bureaus. Kearney reviewed the severance plans in place in each of these countries and confirmed that the policies were in agreement with local labor law and prevailing practice.

**Czech Severance Policy.** RFE/RL offers severance pay to its Czech employees who are separated involuntarily as a result of a reduction in force or job elimination. Involuntarily separated employees are compensated based on how long they have worked for RFE/RL. Kearney compared the RFE/RL severance plan with the severance plan required by Czech labor code and found the benefit formulas to be in agreement. As a result, Kearney concluded that the severance pay policy for Czech employees was allowable.

**Worldwide Bureaus.** Kearney reviewed the Employment Agreements for each of the bureaus and compared the benefits offered to the local labor law of the applicable country. Kearney noted no instances where the severance pay plan offered exceeded the requirements of local law. As a result, Kearney concluded that all bureau severance plans were reasonable and allowable.

**Moscow Bureau Severance Payments.** Kearney asked RFE/RL officials about any recent or planned force reductions. RFE/RL officials indicated that there had been a reorganization of

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<sup>23</sup> The Department is responsible for establishing compensation for locally employed staff for all Government agencies under Chief of Mission authority. The Department establishes compensation based on prevailing practice. Therefore, Kearney used the compensation established by the Department as a benchmark for comparability to determine whether the RFE/RL benefits were reasonable.

<sup>24</sup> Although closed to new entrants, this plan continues to provide benefits to retirees who were in the plan before it was closed.



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the Moscow Bureau staff. The reorganization was the result of changes to Russian media law, which imposed bans on RFE/RL's medium wave licenses and required RFE/RL to pursue other avenues for broadcasting not affected by the legislation, such as the Internet. The reorganization resulted in a reduction of 42 staff between September and December 2012.

Russian labor law specifies that individuals who are laid off for redundancy are entitled to a maximum of 5 months of severance pay.<sup>25</sup> RFE/RL consulted a multi-national law firm knowledgeable in Russian labor dismissal protocol before implementing the reduction in force. The law firm informed RFE/RL that terminating staff under the redundancy clause in Russia may result in successful legal actions against RFE/RL by the staff. The legal specialists advised RFE/RL to offer buy-out agreements to the staff. Based on the legal advice received, RFE/RL offered its affected staff between 4 and 6 months of severance pay.

RFE/RL management discussed the plans to lay off Russian staff with BBG's Board of Governors. RFE/RL did not obtain explicit Board approval for each severance package.<sup>26</sup> However, the Board was informed that the packages were created with the assistance of legal advisors. The Board agreed with the need to implement layoffs and approved an overall amount that could be used by RFE/RL for severance payments. The severance agreements were ultimately crafted to avoid lawsuits.

In May 2013, the Moscow Bureau went through another restructuring. RFE/RL officials stated that 11 additional staff chose to voluntarily leave and they were offered and accepted between 4 and 7 months of consideration. RFE/RL and BBG officials were unable to provide evidence of Board approvals but explained that the consideration agreements were similar in nature to the original severance agreements and that a law firm had been consulted.

Kearney concluded that, although the severance and consideration payments offered to the Moscow Bureau staff were slightly more generous than Russian labor law requirements, the payments seemed reasonable given RFE/RL's need to react to the changes in Russian media laws and to minimize the risk of further financial loss. In addition, BBG's Board of Governors had generally approved the severance and consideration payments. Therefore, Kearney concluded that these payments were allowable.

### **RFE/RL's After-Employment Benefits Were Not Fully Funded**

Although Kearney found that the after-employment benefits provided by RFE/RL to its employees were allowable, two of RFE/RL's after-employment benefits, the German defined benefits plan and the post-retirement health and life insurance plan for U.S. citizens and TCNs, had unfunded liabilities of \$88 million (approximately \$87 million related to the post-retirement

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<sup>25</sup> Labor law requires pay in the amount of a 2-month notice period, 2 months of severance pay, and potentially one additional month severance pay if an employee has not found new employment.

<sup>26</sup> Details of an OIG inspection of the events surrounding BBG's review and approval of the Russian severance plans are in the OIG report *Inspection of U.S. International Broadcasting to Russia* (ISP-IB-13-50, Sept. 2013).

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health and life insurance plan and \$1 million related to the German pension plan) according to actuarial reports.<sup>27</sup>

RFE/RL officials indicated that the amount of the unfunded liability for the post-retirement health and life insurance plan may be misleading because of how the actuarial estimate is calculated. The unfunded liability was calculated by an actuary using the best information available at the time of calculation and based on reasonable assumptions. Because the liability was an estimated amount based on current financial information and assumptions such as interest rates and health care costs, the amount of the liability could increase or decrease over time (for example, the estimated amount of the unfunded liability for the U.S. medical and life insurance plan as of September 30, 2012, was approximately \$120 million and was approximately \$51 million in 2014). Kearney's actuary explained that Other Postemployment Benefits<sup>28</sup> are not easily estimated because of the nature and timing of the benefits.

Further, the estimated liability could be lessened if RFE/RL decreased the benefits provided to its employees. Employers invariably reserve the right to change or cancel benefits in response to changes in financial conditions or increasing health care costs. For example, RFE/RL officials stated that the post-retirement health and life insurance plans could be revised at any time or terminated once all plan assets are exhausted without any liability to RFE/RL. Kearney reviewed the contracts and noted that the U.S. plan was for a 1-year term and could be canceled anytime during the contract term with 60 days' written notice. The overseas plan is for a term of 3 years, at which point it can either be canceled or renewed for another term. As a result, RFE/RL has a legal right to cancel these plans, releasing RFE/RL from any liability.

As an alternative, RFE/RL officials stated that RFE/RL could decrease its liability by increasing the retirees' share of premium payments for these plans, which it had done. Specifically, until recent years, RFE/RL paid 100 percent of the premiums for retirees (not including dependents) in the plan. As of FY 2013, retirees paid between 9 and 15 percent of the premiums.

Because of these variables, some RFE/RL officials said that they believed that the assets set aside for the benefits would be sufficient to provide the post-retirement benefits of current employees for an extended but not an indefinite period of time. Kearney found that RFE/RL had sufficient funding to continue the benefit plans for some years; however, there may not be enough funding to continue in perpetuity. Although the U.S. Government is not legally liable to fund these plans, the financial position of the U.S. post-retirement health and life insurance plans and German benefit plans needs to be monitored and assessed to determine the best course of action in the future.

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<sup>27</sup> The U.S. and Czech defined contribution plans do not contribute to this liability, as these plans do not generate a liability beyond the promise to match employee contributions as service is provided.

<sup>28</sup> "Other Postemployment Benefits" is an accounting concept created by the Government Accounting Standards Board that is designed to address expenses that entities may or may not be legally bound to pay but do pay as a moral obligation.

## **BBG Did Not Have Sufficient Oversight of RFE/RL**

Although Kearney considered RFE/RL's after-employment benefits to be generally allowable according to Federal grant regulations and the grant agreements, Kearney identified several gaps in BBG's controls over grantee oversight. Specifically, BBG did not sufficiently monitor RFE/RL. For example, employees who monitored the grantee were unfamiliar with the types of after-employment benefits offered by RFE/RL and did not review and approve contracts over a certain dollar amount. In addition, the grant files were incomplete. Kearney also found that BBG had not adequately defined roles and responsibilities for groups responsible for overseeing RFE/RL and that internal communications were not sufficient. Ensuring an appropriate internal control environment is ultimately the role of the Board of Governors. Further, BBG did not require that the financial reports from the grantee include details about unfunded liabilities. Lastly, BBG did not comply with the requirement to perform annual comparability studies for all types of benefits provided by RFE/RL.

### **Grantee Monitoring**

BBG was responsible for monitoring how RFE/RL used BBG funds to ensure RFE/RL adhered to relevant laws and regulations as well as the terms and conditions specified in the grant agreement. During its audit of BBG's FY 2013 financial statements, Kearney identified control deficiencies related to BBG's monitoring of grantees.<sup>29</sup> Specifically, Kearney found that BBG's process for overseeing grantee activities and compliance consisted mainly of maintaining a binder for each grantee that contained signed grant agreements, amendments, financial plans, funding requests, payment vouchers, and the monthly financial reports prepared by each grantee. In the report, Kearney also stated that BBG did not have specific procedures in place for post-award monitoring to ensure grantees were using Federal awards for allowable costs or to maintain awareness of audit reports related to its grantees.

During this audit, Kearney continued to find deficiencies in how BBG monitored RFE/RL activities. Employees responsible for overseeing the grantee exhibited a general lack of knowledge about the after-employment benefits offered by RFE/RL to its employees (many of the benefits had been offered since 1995). While RFE/RL had a number of employees or consultants who were familiar with the plans and the circumstances surrounding the establishment of the after-employment benefits, BBG officials involved in the oversight of RFE/RL could not provide a basic listing of the plan benefits and instead directed Kearney to RFE/RL officials.

BBG officials responsible for grant oversight were also not monitoring RFE/RL's audited financial statements or actuarial reports to maintain oversight of the grantee's financial activities. Had BBG officials reviewed the annual financial statements, the officials would have been aware of the unfunded liability.

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<sup>29</sup> *Independent Auditor's Report on the Broadcasting Board of Governors 2013 Financial Statements* (AUD-FM-IB-14-14, Dec. 2013).

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BBG's grant terms state that RFE/RL should provide advance notification of new contracts exceeding certain thresholds for BBG approval. Although RFE/RL and BBG officials stated that RFE/RL had provided the required notifications to BBG, BBG was unable to provide documentation showing that the notification had been acted upon. BBG did not routinely review and approve contracts as required by the Grant Agreement. For example, the post-retirement health and life insurance benefit plans were provided by contractors and were updated every 1 to 3 years depending on the plan. In essence, the unfunded liability was reaffirmed each time RFE/RL signed a contract with the third-party insurance provider to continue the plans. At no point in this process did BBG request copies of the signed contracts or other pertinent information relating to the benefits.

In addition, BBG did not have a sufficient process to ensure that information was obtained and shared among officials responsible for overseeing RFE/RL to ensure consistent oversight. According to BBG's Grantee Handbook, BBG should maintain files that include information related to the grantees. While BBG maintained grant files that included some documentation, the documentation was not sufficient to oversee a grantee. For example, the grant files did not include the following:

- Information related to the after-employment benefit plans. RFE/RL officials stated that RFE/RL had provided plan documents to BBG, but BBG was unable to provide any of these items.
- The post-retirement health and life plan contract. The post-retirement health and life plan costs more than \$3 million annually.

Although the grant files included copies of the grantee's financial plan and budget submissions, which demonstrated some review over the amounts requested by RFE/RL, the files did not include any analyses or data at a detailed level to demonstrate that BBG had performed sufficient work to ensure that the expenses included in the financial plans and budgets were allowable.

BBG attributed a number of these deficiencies to the lack of resources and employee turnover. According to BBG officials, BBG had experienced a high rate of turnover over the last few years, especially in the Office of the Chief Financial Officer (OCFO). The grant files should contain information sufficient to ensure that knowledge is shared among employees and that documentation is adequate for new employees to be able to perform sufficient oversight.

In FY 2014, BBG developed a Corrective Action Plan that outlined certain control improvements for grantee monitoring that would be implemented beginning in March 2014. BBG intended to review the financial statements more closely and to be more involved in the financial reporting of RFE/RL. As of May 2014, this plan had not been implemented by any office in BBG.

**Recommendation 1.** OIG recommends that the Broadcasting Board of Governors ensure that the employees responsible for monitoring Radio Free Europe/Radio Liberty

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(RFE/RL) meet with RFE/RL officials to gain a complete understanding of the after-employment benefits offered.

**BBG Response:** BBG agreed with this recommendation, stating that it will have appropriate officials meet with RFE/RL staff to “gain a complete understanding of RFE/RL’s after-employment benefits.”

**OIG Reply:** OIG considers the recommendation resolved. This recommendation can be closed when OIG reviews and accepts documentation showing that BBG officials have met with RFE/RL officials to gain a complete understanding of after-employment benefits offered.

**Recommendation 2.** OIG recommends that the Broadcasting Board of Governors design and implement procedures to perform routine reviews of Radio Free Europe/Radio Liberty (RFE/RL) financial activity. At a minimum, these procedures should include periodic reviews of significant events and transactions and analyses of RFE/RL’s financial statements and actuarial reports.

**BBG Response:** BBG agreed with this recommendation. BBG is having an external contractor assess BBG’s efforts at grants monitoring and will incorporate recommendations that they receive from the contractor that are “relevant, appropriate, and feasible.”

**OIG Reply:** OIG considers the recommendation resolved. This recommendation can be closed when OIG reviews and accepts documentation showing that BBG has designed and implemented procedures to routinely review RFE/RL’s financial activities.

**Recommendation 3.** OIG recommends that the Broadcasting Board of Governors develop a process to review and approve significant contracts over \$350,000 for Radio Free Europe/Radio Liberty.

**BBG Response:** BBG partially concurred with the recommendation and stated it was concerned that additional review or involvement in RFE/RL contracting would be inconsistent with OMB prohibitions against substantial involvement in grantee operations. However, BBG concurred with “any recommendation that calls for oversight within the scope of applicable” Office of Management and Budget regulations.

**OIG Reply:** OIG considers the recommendation unresolved. OIG notes that BBG’s FY 2012 grant agreement with RFE/RL endorsed BBG’s review of RFE/RL contracts that exceeded \$350,000. In its FY 2013 grant agreement with RFE/RL, the language was modified to only require RFE/RL to notify BBG about contracts that exceeded \$350,000. OIG believes that the arrangement for BBG to review and approve contracts exceeding \$350,000 is warranted based on the findings in this report. Further, we are not aware of any OMB prohibition that limits BBG’s oversight of grant funds provided to RFE/RL. This recommendation can be closed when OIG reviews and accepts documentation

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showing that BBG has developed a process to improve oversight of grants funds provided to RFE/RL by reviewing significant contracts.

**Recommendation 4.** OIG recommends that the Broadcasting Board of Governors develop policies and procedures to ensure that information needed to oversee grantees is maintained in the grant files and to ensure that the relevant information is available for at least 7 years.

**BBG Response:** BBG agreed with this recommendation, stating that it will “develop and implement policies and procedures to ensure the integrity of the grant files.”

**OIG Reply:** OIG considers the recommendation resolved. This recommendation can be closed when OIG reviews and accepts documentation showing that BBG has developed policies and procedures to ensure that grant files are complete and accessible.

### **BBG Roles and Responsibilities and Internal Communications**

The Grantee Handbook did not assign certain oversight responsibilities to specific offices within BBG. The Handbook states that OCFO was responsible for reviewing and approving financial plans and reviewing monthly reports of grant payments. However, many of the responsibilities for overseeing grantees were included in a general section labeled “BBG responsibilities.” No details were provided on which office within BBG was responsible for the grant agreement, the grant files, the tracking of payments, general monitoring, or periodic reviews.

Kearney found that OCFO had been unofficially performing some of the monitoring duties. However, the employee within OCFO who was monitoring RFE/RL had not been formally designated as a grants analyst, and his official duties did not include the requirement to oversee RFE/RL. The employee also had not been delegated authority to obtain information from RFE/RL and had to obtain the documents required to oversee the grantee from other parties within BBG. In addition, the employee said that he did not feel that he had the authority to go to RFE/RL to obtain additional information.

Further, the BBG Board of Governors was also involved in the grants monitoring process; for example, the Board reviewed and approved budgets and financial plans and worked with the grantees on various initiatives. However, the Handbook did not provide clear information on the differences between the roles of the Board and OCFO for fiduciary oversight. In addition, internal communication between the Board and OCFO was not always sufficient to ensure that the employee monitoring the grantee had sufficient information. For example, Kearney found that the Board had approved the severance benefits for the RFE/RL Russian employees in FY 2012. However, the employee monitoring the grantee did not have detailed information about the approved severance benefits, even though the employee was responsible for reviewing expenditures for allowability within the provisions of the grant agreement.

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Without a clear policy establishing roles and responsibilities for grantee oversight and open lines of communication between various groups within BBG, BBG cannot effectively monitor its grantees. Because of the Board's significant involvement in the oversight of the grantees, it has a responsibility to ensure that the roles and responsibilities are defined and internal communications are sufficient.

**Recommendation 5.** OIG recommends that the Broadcasting Board of Governors (BBG) review and revise its policies and procedures to clearly define the roles and responsibilities of the officials within BBG who are responsible for monitoring and overseeing Radio Free Europe/Radio Liberty.

**BBG Response:** BBG agreed with this recommendation, stating that it will "review and revise its policies and procedures to define the roles and responsibilities of agency officials responsible for monitoring and overseeing RFE/RL."

**OIG Reply:** OIG considers the recommendation resolved. This recommendation can be closed when OIG reviews and accepts documentation showing that BBG has revised its policies and procedures to define the roles and responsibilities of BBG officials that monitor and oversee RFE/RL.

**Recommendation 6.** OIG recommends that the Broadcasting Board of Governors (BBG) formally designate a grants analyst to monitor Radio Free Europe/Radio Liberty (RFE/RL). As part of the designation, BBG should ensure that the grants analyst's responsibilities are clearly communicated to that employee. Further, BBG should ensure that authority is formally provided to the grants analyst so that the analyst can obtain needed information from RFE/RL.

**BBG Response:** BBG agreed with this recommendation, stating that it will "formally designate a grants analyst to monitor RFE/RL and provide such authority as needed." The analyst will "work with grantees to develop" procedures for "monitoring and processing financial information."

**OIG Reply:** OIG considers the recommendation resolved. This recommendation can be closed when OIG reviews and accepts documentation showing that BBG formally designated a grants analyst for RFE/RL and that the grants analyst duties were clearly communicated and authority was formally provided.

**Recommendation 7.** OIG recommends, once a grants analyst has been designated, that the Broadcasting Board of Governors ensure that the grants analyst obtains appropriate training related to grants monitoring.

**BBG Response:** BBG agreed with this recommendation, stating that it will "provide additional training related to grants monitoring to the designated grants analyst."

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**OIG Reply:** OIG considers the recommendation resolved. This recommendation can be closed when OIG reviews and accepts documentation showing that BBG provided additional training to the grants analyst.

**Recommendation 8.** OIG recommends, once a grants analyst has been designated, that the Broadcasting Board of Governors implement an effective communication methodology to ensure that information is shared between the Board of Governors and the grants analyst.

**BBG Response:** BBG agreed with this recommendation, stating that it will “implement a communications methodology to ensure that relevant information is shared between the Board of Governors and the grants analyst.”

**OIG Reply:** OIG considers the recommendation resolved. This recommendation can be closed when OIG reviews and accepts documentation showing that BBG implemented an effective communication methodology to ensure that information is shared between the Board and the grants analyst.

### **Financial Reporting Requirements**

BBG requires RFE/RL to submit an annual budget to BBG. In addition, the grant agreement requires RFE/RL to submit periodic financial plans to BBG for approval. However, the budget requests and financial plans submitted by the grantee include information only on current year needs or expenditures. Information on unfunded liabilities was not included in the budget or financial planning documents. Long-term liabilities are a significant issue that needs to be considered by both RFE/RL and BBG and discussed during budget or planning meetings. Reviewing only current year requests during the annual budget process limits BBG management’s ability to fully understand the financial position of RFE/RL. To effectively oversee RFE/RL, BBG should require additional information during the budget and financial planning processes to obtain details on unfunded liabilities.

**Recommendation 9.** OIG recommends that the Broadcasting Board of Governors (BBG) design detailed annual budget submission formats and financial planning documents that will allow BBG to obtain details on unfunded liabilities at Radio Free Europe/Radio Liberty.

**BBG Response:** BBG agreed with this recommendation, stating that it will “work with RFE/RL on a detailed annual budget submission format and financial planning documents that will allow BBG to obtain details on unfunded liabilities at RFE/RL.”

**OIG Reply:** OIG considers the recommendation resolved. This recommendation can be closed when OIG reviews and accepts documentation showing that BBG developed budget submission and financial planning documents that will allow BBG to obtain details on RFE/RL unfunded liabilities.



## **Comparability Studies**

According to the Grantee Handbook, OCFO “will conduct a comparability study each year to verify compensation plans.” Comparability studies are performed to determine how wages and benefits provided to employees within an organization compare with wages and benefits paid for similar work in other organizations. Comparability studies are a tool that can be used by a Federal agency to detect unallowable costs at a grantee. Specifically, BBG used the comparability studies to determine whether RFE/RL’s compensation was in alignment with Federal grant regulations. Without this type of analysis, oversight officials would not have enough evidence to determine the reasonableness of after-employment benefit plans.

Kearney requested copies of past studies performed by BBG that compared RFE/RL’s wages and benefits with those provided to U.S. Government employees. Kearney found that BBG did not consistently or routinely review RFE/RL’s compensation and benefits package to ensure compliance with the grant agreements, as was required by the Grantee Handbook. The most recent comparability study was conducted in 2007.<sup>30</sup> Since 2007, some benefit plans had changed at RFE/RL.

In addition, Kearney found that BBG considered after-employment benefits provided only to RFE/RL’s U.S. employees during the comparability studies that were performed. Benefits provided to overseas staff were not considered. Non-U.S. citizen compensation plans were a substantial part of the grantee’s after-employment benefits.

Conducting comparability studies is a time-intensive process. It requires working knowledge of after-employment benefits, salary structures, Federal laws and regulations, and the prevailing practices within the countries of operations. Without timely analyses, BBG may not be in a position to proactively prevent or detect unallowable costs or inefficiencies. Not performing this type of study is a gap in the performance of oversight responsibilities.

**Recommendation 10.** OIG recommends that the Broadcasting Board of Governors develop and implement a standardized process to produce effective comparability studies. The process should ensure that the studies are performed at prescribed intervals, include all benefits offered by Radio Free Europe/Radio Liberty to its domestic and overseas employees, and contain data and analyses that support conclusions.

**BBG Response:** BBG agreed with this recommendation, stating that it will “enhance and standardize its process to produce effective comparability studies, and ensure that they are performed at prescribed intervals.”

**OIG Reply:** OIG considers the recommendation resolved. This recommendation can be closed when OIG reviews and accepts documentation showing that BBG developed and implemented a standardized process to produce comparability studies.

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<sup>30</sup> Prior studies had been done in 2003, 2000, and 1995.

## **Inadequate Oversight of Grantee Benefits Could Lead to Negative Impacts for the Federal Government and Taxpayers**

Because it was not effectively monitoring the financial condition of RFE/RL, BBG was not appropriately managing risks. As of September 30, 2013, RFE/RL's unfunded liability related to after-employment benefits was approximately \$88 million. The liability does not represent a short-term problem but rather a potential long-term issue that needs to be considered in planning for the future.

RFE/RL's unfunded liability does not represent a legal liability to the Federal Government. In fact, RFE/RL officials stated that the Federal Government provided RFE/RL with funding in 1995 to cover the future costs of the after-retirement plans. The funds were to be invested in assets, and those assets, along with the income earned on the assets, were to be used to fund the benefits.<sup>31</sup> The Federal Government, through OMB, indicated that no future funding for these benefits would be provided by the Federal Government. Although RFE/RL officials do not want to discontinue the benefits, RFE/RL officials stated that RFE/RL had no expectations that the Federal Government would provide additional resources to fund the liability in the future if the current plan assets were fully depleted.<sup>32</sup> The officials further stated that RFE/RL could abolish the plans or increase participants' contributions to eliminate or decrease the amount of the liability related to the U.S. medical and life insurance plan. According to the officials, most (but not all) of the retirees would have other health care benefits that they could rely on instead, such as Medicare.

Although there was no expectation on the part of RFE/RL management for the Federal Government to provide additional resources, if abolishing the post-retirement health and life insurance plans previously provided or significantly increasing retiree premiums were to become necessary, the effect could be that the Federal Government may elect to provide additional funding to avoid the unfavorable outcome of discontinuing these benefits. In addition, if RFE/RL had to cut benefits or could not offer benefits to new employees, employee morale for the remaining employees could be negatively impacted.

As for the smaller unfunded liability related to the German defined benefit pension plan (approximately \$1 million for 2013), RFE/RL officials said that if the insurance plans that were purchased by RFE/RL for its employees in Germany were not sufficient to provide all of the retirement benefits promised, RFE/RL would be unable to provide additional funding. According to RFE/RL officials, the Government of Germany covers pension plan shortfalls that occur, which would include any potential shortfalls related to the former RFE/RL employees. However, allowing the Government of Germany to cover the unfunded costs of pension benefits provided by an affiliate of the U.S. Government to former employees who are German citizens may result in negative consequences to the Federal Government's reputation or its political relationships.

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<sup>31</sup> Since 1995, no appropriated funds have been used to fund the post-retirement health and life insurance plans.

<sup>32</sup> According to RFE/RL officials, if RFE/RL were required to expand operations it might need to hire additional employees overseas. The Government did not anticipate an increase in staff when it provided assets to fund the post-retirement benefits. Therefore, RFE/RL officials indicated that RFE/RL would consider requesting money to fund post-retirement benefits for additional employees hired due to a required expansion of services.

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Therefore, the Federal Government may elect to provide additional funding for this liability as well.

## **List of Recommendations**

**Recommendation 1.** OIG recommends that the Broadcasting Board of Governors ensure that the employees responsible for monitoring Radio Free Europe/Radio Liberty (RFE/RL) meet with RFE/RL officials to gain a complete understanding of the after-employment benefits offered.

**Recommendation 2.** OIG recommends that the Broadcasting Board of Governors design and implement procedures to perform routine reviews of Radio Free Europe/Radio Liberty (RFE/RL) financial activity. At a minimum, these procedures should include periodic reviews of significant events and transactions and analyses of RFE/RL's financial statements and actuarial reports.

**Recommendation 3.** OIG recommends that the Broadcasting Board of Governors develop a process to review and approve significant contracts over \$350,000 for Radio Free Europe/Radio Liberty.

**Recommendation 4.** OIG recommends that the Broadcasting Board of Governors develop policies and procedures to ensure that information needed to oversee grantees is maintained in the grant files and to ensure that the relevant information is available for at least 7 years.

**Recommendation 5.** OIG recommends that the Broadcasting Board of Governors (BBG) review and revise its policies and procedures to clearly define the roles and responsibilities of the officials within BBG who are responsible for monitoring and overseeing Radio Free Europe/Radio Liberty.

**Recommendation 6.** OIG recommends that the Broadcasting Board of Governors (BBG) formally designate a grants analyst to monitor Radio Free Europe/Radio Liberty (RFE/RL). As part of the designation, BBG should ensure that the grants analyst's responsibilities are clearly communicated to that employee. Further, BBG should ensure that authority is formally provided to the grants analyst so that the analyst can obtain needed information from RFE/RL.

**Recommendation 7.** OIG recommends, once a grants analyst has been designated, that the Broadcasting Board of Governors ensure that the grants analyst obtains appropriate training related to grants monitoring.

**Recommendation 8.** OIG recommends, once a grants analyst has been designated, that the Broadcasting Board of Governors implement an effective communication methodology to ensure that information is shared between the Board of Governors and the grants analyst.

**Recommendation 9.** OIG recommends that the Broadcasting Board of Governors (BBG) design detailed annual budget submission formats and financial planning documents that will allow BBG to obtain details on unfunded liabilities at Radio Free Europe/Radio Liberty.

**Recommendation 10.** OIG recommends that the Broadcasting Board of Governors develop and implement a standardized process to produce effective comparability studies. The process should ensure that the studies are performed at prescribed intervals, include all benefits offered by Radio

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Free Europe/Radio Liberty to its domestic and overseas employees, and contain data and analyses that support conclusions.

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## **Scope and Methodology**

The objective of this audit was to determine to what extent costs related to Radio Free Europe/Radio Liberty's (RFE/RL) after-employment benefits were allowable according to Federal grant regulations and the grant agreement. An external audit firm, Kearney & Company, P.C. (Kearney), acting on behalf of the Office of Inspector General (OIG), performed this audit.

Kearney conducted this performance audit from January to April 2014 in Washington, D.C. Kearney planned and performed this audit in accordance with requirements in the Government Accountability Office's *Government Auditing Standards*. Those standards require that Kearney plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Kearney believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

To obtain background information for this audit, Kearney researched and reviewed Federal grant regulations, including Office of Management and Budget (OMB) Circulars<sup>1</sup> and the United States Code. For example, Kearney reviewed provisions of Title 5 of the United States Code<sup>2</sup> for Federal after-employment benefits and the International Broadcasting Act of 1994.<sup>3</sup> In addition to laws and regulations, Kearney reviewed the audited financial statements for RFE/RL and the Broadcasting Board of Governors (BBG). Further, Kearney reviewed the grant agreement that governs the relationship between BBG and RFE/RL and budget and financial planning documentation. To understand after-employment benefits in overseas countries, Kearney reviewed employment laws and prevailing practices for after-employment benefits in countries in which RFE/RL operates.

Kearney met with key RFE/RL personnel to gain an understanding of the after-employment benefit plans offered to employees. For example, Kearney obtained information on the circumstances surrounding the establishment of the after-employment benefit plans, the various plans offered, computations of each plan's benefit, plan eligibility requirements, annual contributions required by RFE/RL, and the long-term impact of each plan on RFE/RL's operations. Kearney met with key BBG personnel within the Office of the Chief Financial Officer and the Office of Budget to determine the officials' understanding of the after-employment benefits offered by RFE/RL. Kearney also gained an understanding of BBG's policies and procedures for monitoring grantees, including procedures performed to ensure that grantees complied with the grant agreement and other Government guidance. Further, Kearney gained an understanding of the annual budget and financial planning process. Kearney also asked BBG officials about their understanding of the long-term impact of RFE/RL's after-employment benefits.

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<sup>1</sup> As of December 2013, Title 2 of the Code of Federal Regulations superseded OMB Circulars A-21, A-50, A-87, A-89, A-102, A-110, A-122, A-133. During the audit, Kearney reviewed both OMB Circulars and the Code of Federal Regulations for guidance.

<sup>2</sup> 5 U.S.C. pt. III, subpt. G, ch. 55, 84, 87, and 89.

<sup>3</sup> Pub. L. No. 103-236, §§ 308 and 315, "International Broadcasting Act of 1994."

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To draw conclusions on the allowability of the after-employment benefit plans, Kearney obtained sufficient audit evidence from both BBG and RFE/RL to compare the after-employment benefits provided by RFE/RL with benefits received by Federal Government employees or local labor laws and prevailing practices (depending on the plan). Kearney reviewed the allowability of the after-employment benefits as of the establishment of each of the plans in 1995 and as of January 2014, in accordance with current laws and regulations. Kearney engaged an actuarial specialist to assist in evaluating the benefit plans offered by RFE/RL. Kearney's actuary reviewed actuarial reports related to the closed German defined benefit plan and the post-retirement health and life insurance plan. Additionally, the actuarial specialist provided an expert analysis to substantiate claims made by RFE/RL relating to its after-employment benefit plans. Specifically, the actuary assessed the aggregation of all RFE/RL after-employment benefit plans and made a determination on the comparability of the benefits offered to Federal Government employees under Title 5 of the United States Code.

### **Prior OIG Reports**

In FY 2014, OIG reported<sup>4</sup> a material weakness in internal control related to BBG's management of its grantees. Specifically, although BBG was responsible for monitoring how its grantees used BBG funds to ensure that grantees adhered to relevant laws and regulations as well as the terms and conditions specified in the grant agreements, the auditors identified numerous instances where BBG did not sufficiently monitor its grantees.

In FY 2013, OIG reported<sup>5</sup> on RFE/RL's operations in Moscow and provided recommendations relating to severance benefits paid to Russian citizens. Severance benefits were paid to more than 40 staff because of the curtailment of broadcasting activities in Moscow, Russia, and the inspection identified poor communication and lack of sufficient oversight surrounding the payments.

### **Use of Computer-Processed Data**

The audit team used computer-processed data from RFE/RL to gain an understanding of after-employment benefits offered. Specifically, Kearney obtained listings of employees enrolled in or eligible for the various after-employment benefit plans from RFE/RL's Human Resource Information System. Kearney did not, however, perform any testing over controls for the system or any further procedures to ensure the accuracy of the data. Kearney relied on audited financial statements and actuarial reports for the purposes of unfunded liability balances, contribution payments, and employee counts. Based on how the data would be used during the audit, Kearney believes that the data were sufficiently reliable for its needs.

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<sup>4</sup> *Independent Auditor's Report on the Broadcasting Board of Governors 2013 Financial Statements* (AUD-FM-IB-14-14, Dec. 2013).

<sup>5</sup> *Inspection of U.S. International Broadcasting to Russia* (ISP-IB-13-50, Sept. 2013).

### **Work Related to Internal Controls**

Kearney performed steps to assess the adequacy of internal controls related to the areas audited. Specifically, Kearney gained an understanding of BBG controls over the annual grantee budget submission, grantee monitoring, and comparability studies for after-employment benefits. Kearney gained an understanding of RFE/RL controls relating to the annual budget submission process, grant agreement compliance, and after-employment benefit reviews, including uses of local labor attorneys. Results of work performed over internal controls during the audit are detailed in the Audit Results section of the report.



## Excerpts From Title 5 of the United States Code

The following sections from Title 5 of the United States Code were used as the basis for Kearney's analysis of the benefits provided by Radio Free Europe/Radio Liberty to its U.S. employees.

**Table 1. Sections of Title 5, Part III of the United States Code Considered During Audit**

<b>Subpart G, Chapter 84, Subchapter II: Federal Employees Retirement System - Computation of Annuity</b>
<b>5 USC §8415:</b> "Except as otherwise provided in this section, the annuity of an employee retiring under this subchapter is 1 percent of that individual's average pay multiplied by such individual's total service."
<b>Subpart G, Chapter 84, Subchapter III: Federal Employees Retirement System - Employing Agency Contributions (<i>for the Defined Contribution Plan</i>)</b>
<b>5 USC §8432:</b> "The amount contributed ...by an employing agency with respect to a contribution of an employee or Member during any pay period shall be the amount equal to the sum of (i) such portion of the total amount of the employee's or Members' contribution as does not exceed 3% of such employee's or member's basic pay for such period; and (ii) one-half of such portion of the amount of the employee's or Member's contribution as exceeds 3%, but does not exceed 5%, of such employee's or Member's basic pay for such period."
<b>Subpart G, Chapter 89: Government Contributions</b>
<b>5 USC §8906 (b)(1):</b> "Except as provided paragraph (2)..., the biweekly Government contribution for health benefits for an employee or annuitant enrolled in a health benefits plan under this chapter is adjusted to an amount equal to 72 percent of the weighted average under subsection (a)(1)..., as applicable...for an annuitant, the adjustment begins on the first day of the first period of each year for which an annuity payment is made. (2) the biweekly Government contribution for an employee or annuitant enrolled in a plan under this chapter shall not exceed 75 percent of the subscription charge."
<b>Subpart G, Chapter 87: Government Contributions</b>
<b>5 USC §8707 (b)(1):</b> "...whenever life insurance continues after an employee retires on an immediate annuity...deductions for insurance shall be withheld from the employee's annuity or compensation, except that, in any case in which the insurance is continued as provided in section 8706 (b)(3)(A) of this title, the deductions shall not be made of the month after the calendar month in which the employee becomes 65 years of age."
<b>Subpart D, Chapter 55, Subchapter IX: Severance Pay and Back Pay</b>
<b>5 USC §5595:</b> "severance pay consists of (1) a basic severance allowance computed on the basis of 1 week's basic pay at the rate received immediately before separation for each year of civilian service up to and including 10 years for which severance pay has not been received under this or any other authority and 2 weeks' basic pay at rate for each year of civilian service beyond 10 years for which severance pay has not been received under this or any other authority; and (2) an age adjustment allowance computed on the basis of 10 of the total basic severance allowance for each year by which the age of the recipient exceeds 40 years at the time of separation."

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**Appendix C**

## **Broadcasting Board of Governors Response**



*Broadcasting Board of Governors*

**INTERNATIONAL BROADCASTING BUREAU**

August 19, 2014

Mr. Norman P. Brown  
Assistant Inspector General for Audits  
Office of Inspector General  
U.S. Department of State

Dear Mr. Brown:

Thank you for the opportunity to comment on the draft report "Audit of Radio Free Europe/Radio Liberty After-Employment Benefits" (AUD-FM-14-XX) dated July 2014. We appreciate having the benefit of the findings of Kearney & Company, P.C. pursuant to this audit.

Overall, the BBG concurs with all of the recommendations in the report, with the exception of Recommendation 3, for which we would like to withhold full concurrence pending further analysis. At this time, we have some reservations about the possible unforeseen consequences of agreeing to review and approve significant contracts over \$350,000 for Radio Free Europe/Radio Liberty, and would like to consult further with RFE/RL about the breadth and scope of their current contracting efforts – including for more routine purchases of office and media equipment and supplies. With respect to the remaining recommendations, the agency agrees that it should have greater involvement in monitoring RFE/RL's financial condition and after-employment plans, and will begin compliance activity by meeting with RFE/RL officials to gain a complete understanding of these benefits; formally designate a grants analyst to monitor Radio Free Europe/Radio Liberty (RFE/RL); and clearly define the roles and responsibilities of the officials within BBG who are responsible for monitoring and overseeing RFE/RL.

In addition, the agency is in the process of examining and remodeling its grants monitoring program. Under the agency's current contract with KPMG, the company will provide recommendations on restructuring this program. We hope to begin review of these recommendations near the beginning of FY 2015.

For additional information, please contact Ms. Deborah Tate at (202) 203-██████████, and include ██████████@bbg.gov in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Andre Mendes".

Andre Mendes

Enclosure: As Stated

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**Recommendations**

**Recommendation 1.** OIG recommends that the Broadcasting Board of Governors ensure that the employees responsible for monitoring Radio Free Europe/Radio Liberty (RFE/RL) meet with RFE/RL officials to gain a complete understanding of the after-employment benefits offered.

**BBG Response: Concur. Appropriate BBG officials will meet with RFE/RL staff to gain a complete understanding of RFE/RL's after-employment benefits.**

**Recommendation 2.** OIG recommends that the Broadcasting Board of Governors design and implement procedures to perform routine reviews of Radio Free Europe/Radio Liberty (RFE/RL) financial activity. At a minimum, these procedures should include periodic reviews of significant events and transactions and analyses of RFE/RL's financial statements and actuarial reports.

**BBG Response: Concur. Pending the receipt of recommendations on grants monitoring from KPMG, BBG will work with RFE/RL to initiate any additional recommended actions to review financial transactions regularly, incorporating recommendations that we will be receiving from the KPMG study as relevant, appropriate, and feasible.**

**Recommendation 3.** OIG recommends that the Broadcasting Board of Governors develop a process to review and approve significant contracts over \$350,000 for Radio Free Europe/Radio Liberty.

**BBG Response: Concur in Part. BBG will comply with the express language of our grant agreements, including section VI.f which states "Unless otherwise approved by BBG, Grantee shall provide five (5) days advance notification of any new contracts exceeding U.S. \$350,000 and any new leases exceeding U.S. \$200,000." We concur with this recommendation to the extent that it is consistent with our grant agreement and our obligations under the relevant OMB circulars, and does not otherwise run afoul of OMB prohibitions against substantial involvement. We are concerned that reviewing and approving routine contracts would be inconsistent with OMB regulation and general grant principles. We do concur with any recommendation that calls for oversight within the scope of applicable OMB regulations.**

**Recommendation 4.** OIG recommends that the Broadcasting Board of Governors develop policies and procedures to ensure that information needed to oversee grantees is maintained in the grant files and to ensure that the relevant information is available for at least 7 years.

**BBG Response: Concur. BBG will develop and implement policies and procedures to ensure the integrity of the grant files.**

**Recommendation 5.** OIG recommends that the Broadcasting Board of Governors (BBG) review and revise its policies and procedures to clearly define the roles and responsibilities of the officials within BBG who are responsible for monitoring and overseeing Radio Free Europe/Radio Liberty.

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**BBG Response: Concur. BBG will review and revise its policies and procedures to define the roles and responsibilities of agency officials responsible for monitoring and overseeing RFE/RL.**

**Recommendation 6.** OIG recommends that the Broadcasting Board of Governors (BBG) formally designate a grants analyst to monitor Radio Free Europe/Radio Liberty (RFE/RL). As part of the designation, BBG should ensure that the grants analyst's responsibilities are clearly communicated to that employee. Further, BBG should ensure that authority is formally provided to the grants analyst so that the analyst can obtain needed information from RFE/RL.

**BBG Response: Concur. BBG will formally designate a grants analyst to monitor RFE/RL and provide such authority as needed to ensure that the analyst can obtain needed information from RFE/RL. The analyst will work with grantees to develop Standard Operating Procedures for monitoring and processing financial information.**

**Recommendation 7.** OIG recommends, once a grants analyst has been designated, that the Broadcasting Board of Governors ensure that the grants analyst obtains appropriate training related to grants monitoring.

**BBG Response: Concur. BBG will provide appropriate training related to grants monitoring to the designated grants analyst.**

**Recommendation 8.** OIG recommends, once a grants analyst has been designated, that the Broadcasting Board of Governors implement an effective communication methodology to ensure that information is shared between the Board of Governors and the grants analyst.

**BBG Response: Concur. BBG will implement a communications methodology to ensure that relevant information is shared between the Board of Governors and the grants analyst.**

**Recommendation 9.** OIG recommends that the Broadcasting Board of Governors (BBG) design detailed annual budget submission formats and financial planning documents that will allow BBG to obtain details on unfunded liabilities at Radio Free Europe/Radio Liberty.

**BBG Response: Concur. BBG will work with RFE/RL on a detailed annual budget submission format and financial planning documents that will allow BBG to obtain details on unfunded liabilities at RFE/RL.**

**Recommendation 10.** OIG recommends that the Broadcasting Board of Governors develop and implement a standardized process to produce effective comparability studies. The process should ensure that the studies are performed at prescribed intervals, include all benefits offered by Radio Free Europe/Radio Liberty to its domestic and overseas employees, and contain data and analyses that support conclusions.

**BBG Response: Concur. BBG will enhance and standardize its process to produce effective comparability studies, and ensure that they are performed at prescribed intervals.**



**Radio Free Europe/Radio Liberty Response**



Mr. Norman P. Brown  
Assistant Inspector General for Audits, Office of Inspector General  
U.S. Department of State and the Broadcasting Board of Governors  
1700 N. Moore Street, Suite 720  
Rosslyn, VA 22209

August 11, 2014

Dear Mr. Brown:

RFE/RL appreciates the review and the attention paid by Kearney & Company and the Office of Inspector General. We find nothing in the draft report that warrants a response by us.

Sincerely,

A handwritten signature in blue ink that reads "John Giambalvo".

John Giambalvo  
Vice President

**RadioFreeEurope**  
**RadioLiberty**  
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